

April 19, 2016
Governor Matt Bevin Remarks as Prepared for Delivery

Thank you for being here today.

The citizens of Kentucky deserve an honest and transparent government. All government officials must be good stewards of the taxpayer dollars that fund our state government. The hard-working men and women who send their tax dollars to Frankfort expect nothing less than this.

As Governor of this state, I have carefully and thoughtfully hired public servants who are competent and committed to the Commonwealth. Just as important, we have sought men and women of high character to serve the Commonwealth.

In the first four months of my administration, my staff has uncovered evidence that officials in the prior administration failed to meet the high standards that the law and people of Kentucky demand from state government officials. We are here today to air out some — and I stress some — of the questionable activities that our administration has discovered since taking office 4 months ago.

Even more recently we have learned through a U.S. Department of Justice press conference and media reports that the pay-to-play method of conducting government was alive and well at the very highest levels of the past administration.

This method of government must stop and will not be tolerated in our administration. In fact, it stopped the day I took office.

These discoveries raise questions that must be answered in an open and transparent way. Only then, will the citizens of this Commonwealth begin to have confidence in their government. There must be a shift in culture and the way business is done in Frankfort, if we are to move on from the greedy — even corrupt — practices of the past. Let's be clear: corruption and pay-to-play, or pay-to-stay, will not be tolerated in this administration.

Upon concluding my remarks, I will announce how we, as a state, are taking the initiative to move Kentucky forward into a new day — one in which the public have confidence in, and can be proud of, its elected and appointed officials.

1. POLITICAL CONTRIBUTIONS BY STATE EMPLOYEES

Perhaps as disturbing as anything that has come to light is the potential coercion of state employees for political contributions by high-level officials of the last administration.

The Tim Longmeyer federal criminal investigation reveals that apparently ill-gotten gains were directed to Attorney General Beshear's 2015 campaign, to other Democratic candidates and

to the Democratic Party. But what hasn't been publicized is the apparent coercion of employees at the Personnel Cabinet while Longmeyer was Secretary there.

Longmeyer helped found what was called the "Capitol Club," which appears to have solicited contributions from scores of donors to Democratic causes and candidates, including raising money from state employees in the Frankfort area — all while he was a top Beshear administration official.

Public records also show that state employees contributed at least \$140,000 to the Beshear for Attorney General Campaign in 2014 and 2015. We have learned from rank-and-file state employees of closed door demands by high-level Beshear administration officials that they make contributions to Democratic candidates in the last election, including the party's candidates for Governor and Attorney General.

Employees have stepped forward on numerous occasions and explained how they were essentially coerced and that they complied out of fear of loss of their jobs or other retribution. This investigation is preliminary, but we've learned enough to have significant concerns.

This sort of thing was not only wrong — if true, it was illegal. It warrants thorough investigation and exposure in any Cabinet where it may have occurred. And punishment where warranted. These practices will not be tolerated in our administration.

Records also reveal that Tim Longmeyer and his family made contributions to the Beshear for Attorney General 2015 campaign of \$8,000 and substantial sums to other Democratic Party causes.

His alleged co-conspirator, "MC Squared," or its principals, appear to have contributed as much as \$15,500, according to reports.

While our investigation is continuing, we've seen enough at this point to know there is a serious problem. I ask Attorney General Beshear to return those thousands of dollars of questionable contributions if he has not done so already.

Return of those contributions by the Beshear campaign will go a long way toward showing the people of Kentucky that it's not "business as usual" in the new Beshear administration in the Attorney General's office. Attorney General Beshear's refusal to return those contributions will say just the opposite.

To the thousands of public employees who work in state government, thank you for your service. All I ask is that you do your best for Kentucky and take pride in your work. Your job does not require a political contribution.

2. SAS INSTITUTE

During the transition period before I took office, I wrote a letter to Governor Beshear requesting that his administration provide my transition team a copy of all contracts over

\$1,000,000 that they anticipated would be executed before the end of his administration. He refused.

On its last day in office, the Beshear administration awarded a \$3 million no-bid contract for fraud-detection services to SAS Institute, of North Carolina, a company that retained the husband of Beshear's Secretary of the Cabinet as a consultant and employed a former Governor's Office official as a lobbyist.

Rather than put the contract out for bid, this large no-bid contract was extended on the final day of the Beshear administration, December 7, 2015, even though it was not set to expire until December 31.

Furthermore, there is clear evidence that the initial SAS contract was improperly expanded to cover additional state agencies without a competitive bid. In both cases, the no-bid contracts involved the politically appointed Executive Director of Purchasing in the Finance Cabinet.

No bid contracts should be used only when absolutely necessary and warrant close scrutiny. The awarding of a no-bid contract benefitting the husband of the former Secretary of the Cabinet deserves such scrutiny.

3. MEDICAID IT SYSTEM

The prior administration issued an RFP for an upgrade of the IT system that is the backbone for Medicaid. It is an enterprise management system requiring the investment of **hundreds of millions of state and federal dollars.** Several Fortune 500 IT consulting firms responded to the RFP.

After eight months, this procurement was abruptly cancelled, presumably after a bidder complained about its treatment during oral presentations. The bid was reissued and, in November 2015, the Beshear administration was preparing to award the contract to the firm whose complaints apparently led to the cancellation of the initial solicitation.

There are serious questions about the propriety of this procurement process. First, the bidder that complained about its treatment was about to lose the initial bid. Second, management of the second bid was taken away from the career merit-system procurement officer who handled the first solicitation and put into the hands of a non-merit, political appointee - the Executive Director of Purchasing in the Finance Cabinet – the same person responsible for the no-bid SAS contracts mentioned earlier. Third, the firm positioned to secure the award following the issuance of the second solicitation had partnered with a firm owned by the husband of former Governor Beshear's Secretary of the Cabinet – yes, the same person who consulted for SAS when it received its no-bid contracts.

After complaints resulting in the cancellation of the first solicitation, a losing vendor receives the highest score following the rebid conducted by a political appointee. This is a convoluted mess that doesn't pass the smell test.

Thankfully, time ran out on the prior administration. Shortly after uncovering these questionable decisions and relationships, our administration acted quickly to cancel the second bid. We are now moving forward on two fronts: investigating the potential improprieties of the previous bids and preparing a new bid that **will be fair to all potential respondents.**

4. STATE WORKERS' COMPENSATION

Two major potential irregularities within the Workers' Compensation branch of the state Personnel Cabinet have also come to light.

One involves the claims administrative process for volunteer firefighters. In particular, it appears former officials in the Personnel Cabinet deviated from routine claims handling practice to effectuate potentially unjustified awards of lump sum death benefits, medical benefits, and indemnity benefits to volunteer firefighters. This may have costs millions of dollars over a number of years.

The second irregularity involves certain directives apparently requiring third party administrators hired to administer workers' comp claims against the state to assign the legal handling of all claims to certain specified, hand-picked attorneys rather than proceeding in a fair bidding process. This is yet another example of abuse of the state procurement system.

This investigation is continuing. In fact, Secretary Tom Stephens of the Personnel Cabinet, has recently formally requested the Finance and Administration Cabinet to conduct an investigation into these potential irregularities with an emphasis on auditing all of the claims and billing practices over an extended time period and ensuring compliance with competitive bidding requirements. This will be done.

CONCLUSION

In light of these areas of serious concern, and still others that are not able to be discussed publicly at this time, I am asking the Secretary of the Finance and Administration Cabinet, Col. Bill Landrum, using the extensive investigative powers given to him in KRS Chapter 45, to prepare and issue an RFP for a thorough, in-depth investigation and report by an attorney or law firm with experience in investigating activities and contracts like I have outlined.

Once selected, this firm will work closely with Secretary Landrum and his staff, including the Cabinet's new Inspector General, whose appointment will be announced in the coming days, to make findings and issue a report.

Under KRS Chapter 45, such investigation will include the ability to subpoena witnesses and records as may be necessary to accomplish the investigative goals.

A thorough, independent investigation like this can expose and cast light upon prior unsavory — and perhaps illegal — practices, but can also provide the public a degree of confidence in a fair and transparent governance that was so glaringly absent in the past administration.

I understand that the FBI might be looking into matters related to these issues, but the FBI is investigating potential violations of federal law. The people of Kentucky also deserve to know whether any Kentucky laws were violated.

When I campaigned for Governor I committed to running the kind of open, transparent and honest government that has not always existed in Frankfort.

I have the highest confidence in the caliber and integrity of Sec. Landrum. He will clean up the mess and get Frankfort's finances and administrative operations running in a way that will restore confidence in government business. Any sign of corruption will be exposed and eliminated.

The people of Kentucky elected us to be good stewards and public servants, not to use their hard-earned taxdollars for political or personal gain. That is our commitment.